

also be subject to the following conditions:

(1) Charges for losses other than loan losses may be made pursuant to authorization of the board of directors if the credit union's ratio of capital to assets is greater than 6 percent and the charge reduces the ratio by no more than ½ percent. The board of directors' authorization shall state the amount of and an explanation of the need for the charge. For the purposes of this section, capital is defined as the total of the Regular Reserve, the Allowance for Loan Losses, the Allowance for Investment Losses, Undivided Earnings, and other reserves.

(2) Charges for losses other than loan losses that do not meet the conditions of paragraph (c)(1) of this section must receive the written approval of the regional director for Federal credit unions.

(d) The Board may decrease the reserve requirements as set forth in section 116 of the Act when, in its opinion, such decrease is necessary or desirable.

[54 FR 48235, Nov. 22, 1989]

§ 702.3 Full and fair disclosure required.

(a) "Full and fair disclosure" is the level of disclosure which a prudent person would provide to a member of a Federal credit union, the National Credit Union Administration, or, at the discretion of the board of directors, a creditor in order to fairly inform any or all of them of the financial condition and the results of operations of the credit union.

(b)(1) Federal credit union financial statements shall provide for full and fair disclosure of all assets, liabilities, and members' equity, including such valuation allowance accounts as may be necessary to present fairly the financial position; and all income and expenses necessary to present fairly the results of operations for the period concerned.

(2) Full and fair disclosure will further be accomplished by: (i) Selecting one of the accounting bases provided for in the Accounting Manual for Federal Credit Unions which shall be either the modified cash basis or the accrual basis of accounting, and by (ii) use of appropriate financial statements

described in the Accounting Manual for Federal Credit Unions, or financial statements of equivalent format.

(c)(1) The maintenance of a valuation allowance for loan losses shall not eliminate the requirement for transferring a percentage of gross income before the payment of each dividend to the regular reserve as required by section 116 of the Federal Credit Union Act.

(2) As a minimum, adjustments to the valuation allowance for loan losses shall be made prior to the distribution or posting of any dividend to the accounts of members so that the valuation allowance established fairly presents the value of loans and probable losses for all categories of loans. The valuation allowance must encompass:

(i) Specifically identified doubtful or troubled loans;

(ii) Pools of classified loans;

(iii) Pools of loans (e.g., consumer, credit card, etc.); and

(iv) A general portion for all other loans.

(3)(i) Adjustments to the valuation allowance for loan losses will be recorded in the expense account "Provision for Loan Losses."

(ii) Whenever additions to the valuation allowance for loan losses cause a deficit in the regular reserve account, such deficits shall be transferred first to undivided earnings and, if this shall cause a deficit in undivided earnings, then to other segregations of undivided earnings that may exist, exclusive of the Special Reserve for Losses, should such be required by the Board in accordance with § 702.1 of this part. These amounts are eligible for return to undivided earnings as provided for in the Accounting Manual for Federal Credit Unions.

(iii) Dividends shall not exceed the amount available for that purpose after provisions have been made for the statutory transfer to the regular reserve account and the removal of any deficit in the regular reserve account.

(d) The Statement of Financial Condition, when presented to members, creditors, or to the National Credit Union Administration, shall contain a dual declaration by the treasurer and by the president, or in the absence of

National Credit Union Administration

§ 703.30

the president, by any other officer designated by the board of directors of the reporting credit union to make such declaration, that the report and related financial statements are true and correct to the best of their knowledge and belief and present fairly the financial position and the results of operations for the period covered.

(e) Upon written application by the board of directors of a Federal credit union, the Board may waive, in whole or in part, the requirement for the maintenance of the valuation allowance for loan losses in amounts which are in excess of the statutory requirements of section 116 of the Federal Credit Union Act but are required under paragraph (c)(3)(ii) of this section. Such application shall set forth the justification for the requested waiver and shall be addressed to the appropriate Regional Director.

[40 FR 8069, Feb. 25, 1975, as amended at 47 FR 1371, Jan. 13, 1982; 54 FR 48235, Nov. 22, 1989; 57 FR 60722, Dec. 22, 1992]

PART 703—INVESTMENT AND DEPOSIT ACTIVITIES

Sec.

- 703.10 What does this part 703 cover?
- 703.20 What does this part 703 not cover?
- 703.30 What are the responsibilities of my (a federal credit union's) board of directors?
- 703.40 What general practices and procedures must I follow in conducting investment transactions?
- 703.50 What rules govern my dealings with entities I use to purchase and sell investments ("broker-dealers")?
- 703.60 What rules govern my safekeeping of investments?
- 703.70 What must I do to monitor my non-security investments in banks, credit unions, and other depository institutions?
- 703.80 What must I do to value my securities?
- 703.90 What must I do to monitor the risk of my securities?
- 703.100 What investments and investment activities are permissible for me?
- 703.110 What investments and investment activities are prohibited for me?
- 703.120 May my officials or employees accept anything of value in connection with an investment transaction?
- 703.130 May I continue to hold investments purchased before January 1, 1998, that will be impermissible after that date?

703.140 What is the investment pilot program and how can I participate in it?

703.150 What additional definitions apply to this part?

AUTHORITY: 12 U.S.C. 1757(7), 1757(8), 1757(15).

SOURCE: 62 FR 33001, June 18, 1997, unless otherwise noted.

§ 703.10 What does this part 703 cover?

This part 703 interprets several of the provisions of Sections 107(7), 107(8), and 107(15) (B) and (C) of the Federal Credit Union Act ("Act"), 12 U.S.C. 1757(7), 1757(8), 1757(15) (B) and (C), which list those securities, deposits, and other obligations in which a federal credit union ("you") may invest.

§ 703.20 What does this part 703 not cover?

This part 703 does not apply to:

(a) Investment in loans to members and related activities, which is governed by §§ 701.21, 701.22, and 701.23 of this chapter;

(b) The purchase of real estate-secured loans pursuant to Section 107(15)(A) of the Act, which is governed by § 701.23 of this chapter;

(c) Investment in credit union service organizations, which is governed by § 701.27 of this chapter;

(d) Investment in fixed assets, which is governed by § 701.36 of this chapter;

(e) Investment by corporate credit unions, which is governed by part 704 of this chapter; or

(f) Investment activity by state-chartered credit unions, except as provided in § 741.3(a)(3) of this chapter.

§ 703.30 What are the responsibilities of my (a federal credit union's) board of directors?

Your (a federal credit union's) board of directors must establish a written investment policy that is consistent with the Act, this part, and other applicable laws and regulations. The investment policy may be part of a broader, asset-liability management policy. Your board must review the policy at least annually. The policy must address the following items:

(a) The purposes and objectives of your investment activities.